




Protected Taxes
County Auditors Fall 2013 Conference

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Implementation Goals

- Accurate implementation of statute
- Minimize impact to county auditors
- Maintain the current abstract process
- Avoid changes for software vendors
- Modification of budget adoption/review process to reflect fund level changes

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IC 6-1.1-20.6-9.8(c)

- The total amount of the loss in revenue resulting from the granting of credits under section 7 or 7.5 of this chapter must reduce only the amount of unprotected taxes distributed to a fund using the following criteria:
 - (1) The reduction may be allocated in the amounts determined by the political subdivision using a combination of unprotected taxes of the political subdivision in those taxing districts in which the credit caused a reduction in protected taxes.
 - (2) The tax revenue and each fund of any other political subdivisions must not be affected by the reduction.

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IC 6-1.1-20.6-9.8(c)(1)

- The reduction may be allocated in the amounts determined by the political subdivision using a combination of unprotected taxes of the political subdivision in those taxing districts in which the credit caused a reduction in protected taxes.

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Timing of Allocation

- The actual allocation of the circuit breaker credits to the unprotected funds will occur after settlement and distribution.
- Taxing units will be allowed to transfer money between funds to yield the allocation that has been determined by the political subdivision.

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Prior to Distribution

- County abstract with circuit breaker adjusted property tax distribution rates is approved and released.
- DLGF creates and releases the circuit breaker report for each county as the abstract is approved.

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Prior to Distribution

- Using the information provided in the circuit breaker report, the fiscal body of each taxing unit will make a determination as to whether the circuit breaker credits need to be allocated in a manner different than the way specified in the abstract to the unprotected funds.

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Prior to Distribution

- If a taxing unit determines that a different allocation of circuit breaker credits is necessary, the taxing unit's fiscal body will complete a Department prescribed form and adopt an ordinance/resolution that identifies the allocation determined by the taxing unit.
 - DLGF will provide sample ordinances/resolutions.

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Prior to Distribution

- Taxing units will complete a prescribed form in Gateway.
 - This process will be similar to the process anticipated to be used for additional appropriations.
 - Units adopt an ordinance and complete a form.
 - The Department will only receive the form in Gateway.

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Immediately After Distribution

- Immediately after distribution or no later than close of business on June 30, the taxing unit's fiscal officer will transfer property tax revenue between the unprotected funds according to the allocation specified in the ordinance/resolution.

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December Distribution

- The allocation identified in the ordinance/resolution will apply to both the June and December distributions.
- Immediately after distribution or no later than December 31, the taxing unit's fiscal officer will transfer property tax revenue between the unprotected funds according to the allocation specified in the ordinance/resolution.

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Budget Implications

- At this time, the final process for how protected taxes will impact budgets has not been determined.
- As decisions are made, the DLGF will provide guidance through memos and conference presentations to all taxing units on the steps to be followed.
- 2015 budgets would be the first budget year impacted by protected taxes.

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June 30 Cash Balance

- Form 4B, Line 6
- The DLGF currently uses actual cash balance including any investments to populate this line.
- The DLGF anticipates that this process would continue for 2015 and forward.
 - Post-distribution and post-allocation for those units that determine an allocation separate from the distribution

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December Tax Collections

- Form 4B, Line 7
- The DLGF currently treats this line differently depending on the type of fund:
 - If a levy-controlled fund or a rate-controlled fund, the DLGF will use the lesser of the following:
 - Abstract Levy minus June Distribution
 - Certified Levy minus June Distribution

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December Tax Collections

- Form 4B, Line 7
- The DLGF currently treats this line differently depending on the type of fund:
 - If a debt service fund, the Department uses the following:
 - Certified Levy minus June Distribution

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December Tax Collections

- Under protected taxes, many of these variables can be impacted by a taxing unit's allocation of circuit breaker credits:
 - Abstract Levy
 - June Distribution
- Should these values be pre-allocation or post-allocation values?

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Impact on Fund Levy

- For funds that take a larger portion of the circuit breaker impact than originally calculated due to the taxing unit's allocation, using post-allocation numbers will drive up that fund's levy, holding all else equal.
 - Lower June 30 cash balance
 - Lower December tax collections
 - Less revenue requires a greater dependence on property taxes to fund the budget.

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Multi-Year Impacts

- As this scenario repeats itself year-over-year, it may be possible that individual fund levies fluctuate from year to year.
 - Higher levy in one year, lower levy in the next year
- Unit levies overall would still be constrained by levy controls and rate controls.

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Impact to Taxing Units

- Protected taxes will add an additional level of complexity into local government budgeting.
- Taxing units will not only need to make decisions in a given year on the appropriate allocation of circuit breaker credits between unprotected funds, but will also have to modify their approach to budgeting going forward to account for these allocations.

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Impact to Taxpayers

- Budget documents are typically viewed as indicators of policy decisions for a taxing unit.
- Artificial fluctuations in property tax levies due to the mathematical equation used to calculate those levies impacts the ability of the taxpayer to understand local government budgeting and the priorities of the taxing unit.

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Next Steps

- DLGF will provide additional guidance on the allocation process and any changes to the budgeting process in Spring 2014.
- Gateway modifications to accept signed ordinances/resolutions reflecting taxing unit allocation of circuit breaker credits between unprotected funds.

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